

## CREDIT OPINION

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### Contacts

Christopher Yared +1.617.535.7693  
 Associate Lead Analyst  
 christopher.yared@moody's.com

Nicholas Lehman +1.617.535.7694  
 VP-Senior Analyst  
 nicholas.lehman@moody's.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

## Bar Harbor (Town of) ME

### Update to credit analysis

#### Summary

Bar Harbor, ME (Aa2) benefits from a moderately-sized coastal resort tax base, well-managed financial position with sound reserves, manageable debt burden, and low pension liability.

#### Credit strengths

- » Stable tax base that benefits from institutional presence
- » Manageable debt burden
- » Modest pension and OPEB liabilities

#### Credit challenges

- » Moderate revenue raising ability due to property tax cap
- » Limited excess levy capacity
- » Large tourism component to local economy

#### Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

#### Factors that could lead to an upgrade

- » Significant increase in General Fund reserves
- » Significant tax base expansion and diversification
- » Improvement in the demographic profile to levels more consistent with higher rating categories

#### Factors that could lead to a downgrade

- » Trend of operating deficits resulting in a material decline in reserves
- » Significant declines in the tax base or deterioration of the demographic profile
- » Significant increase in debt burden

## Key indicators

Exhibit 1

Bar Harbor (Town of) ME	2014	2015	2016	2017	2018
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$1,390,700	\$1,404,100	\$1,428,800	\$1,493,600	\$1,577,200
Population	5,269	5,296	5,329	5,356	5,235
Full Value Per Capita	\$263,940	\$265,125	\$268,118	\$278,865	\$301,280
Median Family Income (% of US Median)	111.7%	104.1%	113.0%	119.3%	119.3%
<b>Finances</b>					
Operating Revenue (\$000)	\$18,594	\$19,152	\$19,780	\$20,334	\$21,313
Fund Balance (\$000)	\$3,314	\$2,796	\$3,051	\$3,357	\$3,652
Cash Balance (\$000)	\$8,776	\$10,132	\$8,648	\$8,980	\$10,227
Fund Balance as a % of Revenues	17.8%	14.6%	15.4%	16.5%	17.1%
Cash Balance as a % of Revenues	47.2%	52.9%	43.7%	44.2%	48.0%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$7,311	\$11,047	\$11,722	\$10,689	\$12,651
3-Year Average of Moody's ANPL (\$000)	\$7,566	\$7,874	\$8,372	\$6,876	\$8,032
Net Direct Debt / Full Value (%)	0.5%	0.8%	0.8%	0.7%	0.8%
Net Direct Debt / Operating Revenues (x)	0.4x	0.6x	0.6x	0.5x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.6%	0.6%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.4x	0.4x	0.3x	0.4x

Data as of June 30 fiscal year end

Source: Moody's Investors Service and issuer's audited financial statements

## Profile

Bar Harbor is located on the coast of Maine approximately 45 miles southeast of Bangor, ME (Aa2). The year-round population of 5,200 swells to over 18,000 during the summer months.

## Detailed credit considerations

### Economy and Tax Base: Coastal resort tax base benefits from institutional stability

Bar Harbor's \$1.6 billion tax base should experience moderate growth over the long-term given its desirable resort location and employment opportunities. The town's full value has experienced five years of consecutive growth and most recently increased 5.6% in fiscal 2018. The five year compound average annual growth is more modest at 2.6%. The town's substantial full value per capita of \$301,280 reflects the significant presence of second homes (approximately one-third of residences) and a year-round population of 5,200 that swells to approximately 18,000 in the summer and fall. In the near term, hotel construction and redevelopment projects are expected to provide a boost to assessed values.

The Jackson Laboratory (A1 stable), a non-profit research center with almost 1,400 employees, is the town's largest employer. Additional major employers are Mount Desert Island Hospital (538 employees) and the National Park Service (245 employees). The presence of these institutions provides year-round local economic stability, which is an important credit strength for Bar Harbor. Over 200,000 cruise ship passengers each year and Acadia National Park attracts over 3.5 million visitors per year.

Income levels are enhanced by year-round stable employment opportunities and are in line with state and national averages. Median family income represents 126% of state and 119% of US medians. Median home value is even stronger at 176% of state and 164% of US medians.

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### Financial Operations and Reserves: Financial position remains stable

The town's financial position will remain stable given conservative management and commitment to maintain adequate reserve levels. Over the last five years (2014-2018), available fund balance has averaged around \$3.2 million or a below average but reasonable 16.3% of revenues. Fiscal 2018 results reflect a small \$270,000 surplus, which increased available fund balance to \$3.7 million or 17.1% of revenues. The surplus was driven by conservative budgeting and strong motor vehicle excise tax revenues, interest income, and recycling revenues. Positively, the town derives a large majority of its revenues from property taxes, which contributed 82% of fiscal 2018 revenues. The town's largest expenditures are education at 31% of the budget, assessments at 18%, and public safety at 15%.

The fiscal 2019 budget increased by 6.1% or about \$1 million as management revised upward by almost \$300,000 the amount it will spend on the school portion of its capital improvement plan (CIP). The budget was balanced with an equivalent increase in the tax levy, and about \$70,000 was transferred to the CIP for a fire truck.

The fiscal 2020 budget is still under construction but contemplates a 3.3% increase or \$581,000 increase from the prior year. The budget would again be balanced with a similar increase in the tax levy and \$55,000 appropriated to the CIP for tennis courts. By fiscal 2020, management expects the town's newly installed parking meters will be adding about \$500,000 in additional revenues. Additionally, ferry service provided by Bay Ferries, Ltd will generate minimum annual lease revenues of CAD\$264,000.

### LIQUIDITY

Cash and investments at the end of fiscal 2018 represented \$10.2 million or a strong 48% of revenues.

### Debt and Pensions: New debt projects will generate additional revenue sources; manageable pension burdens

Bar Harbor's modest overall debt burden at 0.8% of full value or 0.6 times revenues is manageable but has the potential to increase significantly as the town considers building or renovating an elementary school and issuing debt for infrastructure upgrades. Neither of these projects are included in the current CIP, which calls for about \$13.5 million of spending through fiscal 2023 or about \$2.7 million per year.

The town is currently in the process of issuing approximately \$4 million in debt to finance the acquisition of a ferry terminal from the state of Maine (Aa2 stable) as well as provide for the purchase and installation of 330 parking meters. While the town is pledging its general obligation for debt service on the bonds, both projects are expected to generate incremental revenues for the town, which is credit positive.

### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 71% of principal retired in ten years. Fiscal 2018 debt service represented \$2.2 million or 10% of expenditures.

### DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

### PENSIONS AND OPEB

The town participates in the Maine Public Employees Retirement System Consolidated Plan for Participating Districts, a multi-employer defined benefit retirement plan sponsored by the state of Maine. In fiscal 2018, the town contributed \$388,000 or 1.8% of expenditures toward its required contribution. Moody's 2018 three-year adjusted net pension liability (ANPL) is \$8.0 million or a below-average 0.4 times operating revenues or 0.5% of full value. Moody's adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town provides other post-employment benefits (OPEB) to its employees. As of June 30, 2018, the town's net OPEB liability measured just \$473,389.

Fixed costs, including annual debt service, pensions, and OPEB costs, totaled 12.2% of fiscal 2018 operating expenditures.

### Management and Governance

The management team employs conservative budgeting and financial management as evidenced in a stable financial position, compliance with a formal fund balance policy, and long-term planning for capital expenditures. The town's fund balance policy is to maintain a working capital reserve equal to 10% of the previous year's revenues, maintained as assigned general fund balance.

Maine Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities' major revenue source, property taxes, are subject to a cap, which can be overridden at the local level. The cap is based on statewide personal income growth and local property growth. The cap allows for moderate revenue-raising ability. Taxes raised for school purposes, including school debt service, are not subject to the cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Maine has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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